

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Orchard Lake Village	County Oakland
Fiscal Year End June 30, 2006	Opinion Date August 16, 2006	Date Audit Report Submitted to State November 3, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

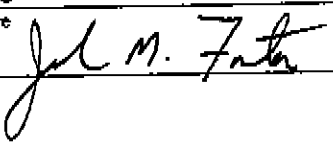
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Janz & Knight, P.L.C.		Telephone Number 248-646-9666	
Street Address 300 East Long Lake Road, Suite 360		City Bloomfield Hills	State Zip MI 48304-2377
Authorizing CPA Signature 	Printed Name John M. Foster		License Number 1101016537

CITY OF ORCHARD LAKE VILLAGE

OAKLAND COUNTY, MICHIGAN

Report on Audit of Accounts

June 30, 2006

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50
YEARS
1954-2004

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the Council
City of Orchard Lake Village
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Orchard Lake Village, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Orchard Lake Village, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orchard Lake Village, Michigan, as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orchard Lake Village, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,

Janz & Knight, P.L.C.

Certified Public Accountants

Bloomfield Hills, Michigan

August 16, 2006

June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Orchard Lake Village's (the City) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues or concerns.

Using this Annual Report

The City's annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and Statement of Activities. They are designed to be corporate-like in that all governmental and business-type funds are consolidated into columns which add to a total for the primary government. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are also taken into account regardless of timing of cash being paid or received.

The City as a Whole

Net Assets - The City's combined net assets were \$14,701,642 at the close of the year ended June 30, 2006. This represents an increase of \$1,112,283 or a 8% increase from a year ago. As we look at governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased \$302,538. This increase was primarily the result of assets being capitalized that will be expensed as depreciation over their useful lives and principal paid on long term debt. The business-type activity had an increase of \$809,746 in net assets. A large part of this increase was from debt charges for sewer construction. The revenue from these charges are recognized in the current year but the cost will be spread over the life of the sewer system as depreciation.

The following table reflects the condensed Statement of Net Assets for the years ended June 30, 2006 and 2005:

Table 1
Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS						
Current and other assets	\$ 1,872,370	\$ 1,993,001	\$ 3,718,558	\$ 3,655,141	\$ 5,590,928	\$ 5,648,142
Capital assets, net	<u>6,145,128</u>	<u>5,954,361</u>	<u>16,812,805</u>	<u>17,353,256</u>	<u>22,957,933</u>	<u>23,307,617</u>
Total assets	<u>\$ 8,017,498</u>	<u>\$ 7,947,362</u>	<u>\$20,531,363</u>	<u>\$21,008,397</u>	<u>\$28,548,861</u>	<u>\$28,955,759</u>
LIABILITIES AND NET ASSETS						
Current and other liabilities	\$ 260,461	\$ 272,862	\$ 140,731	\$ 85,128	\$ 401,192	\$ 357,990
Long term debt outstanding	<u>2,165,000</u>	<u>2,385,000</u>	<u>11,281,028</u>	<u>12,623,410</u>	<u>13,446,028</u>	<u>15,008,410</u>
Total liabilities	\$ 2,425,461	\$ 2,657,862	\$11,421,759	\$12,708,538	\$13,847,200	\$15,366,400
Net assets:						
Invested in capital assets, net of related debt	3,980,128	3,569,361	5,630,083	4,729,846	9,610,211	8,299,207
Restricted	261,233	375,717	238,551	224,809	499,784	600,526
Unrestricted	<u>1,350,677</u>	<u>1,344,422</u>	<u>3,240,970</u>	<u>3,345,204</u>	<u>4,591,647</u>	<u>4,689,626</u>
Total net assets	<u>\$ 5,592,038</u>	<u>\$ 5,289,500</u>	<u>\$ 9,109,604</u>	<u>\$ 8,299,859</u>	<u>\$14,701,642</u>	<u>\$13,589,359</u>
Total liabilities and net assets	<u>\$ 8,017,498</u>	<u>\$ 7,947,362</u>	<u>\$20,531,363</u>	<u>\$21,008,397</u>	<u>\$28,548,861</u>	<u>\$28,955,759</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2006

Unrestricted net assets are net assets that can be used to finance day to day operations. Restricted net assets of the City totaled \$499,784. These net assets have limitations on their use that were imposed by restrictions such as enabling legislation, grant or bond covenants. The investment in capital assets represents the City's capital assets that provide services to citizens; accordingly, these assets are not available for future spending.

The following table shows the changes in net assets for the years ended June 30, 2006 and 2005:

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenue:						
Charges for services	\$ 281,796	\$ 388,928	\$ 997,060	\$ 862,971	\$ 1,278,856	\$ 1,251,899
Operating grants and contributions	170,524	195,774			170,524	195,774
Capital grants and contributions	7,198	19,962	351,046	414,016	358,244	427,978
General revenue:						
Property taxes	2,113,381	2,011,724	1,122,263	1,090,663	3,235,644	3,102,587
State shared revenue	179,847	180,311			179,847	180,311
Interest income	104,890	56,787	160,392	140,123	285,282	196,910
Franchise fees	38,841	35,060			38,841	35,060
Sale of fixed assets	<u>1,577</u>	<u>3,852</u>			<u>1,577</u>	<u>3,852</u>
Total revenue	\$ 2,898,054	\$ 2,886,399	\$ 2,650,761	\$ 2,507,973	\$ 5,548,815	\$ 5,394,372
Program expenses:						
General government	447,506	452,999			447,506	452,999
Public safety	1,323,330	1,287,918			1,323,330	1,287,918
Public works	552,837	530,532			552,837	530,532
Community and economic development	30,117	12,376			30,117	12,376
Health and welfare	8,000	8,000			8,000	8,000
Culture and recreation	131,354	114,814			131,354	114,814
Interest on long term debt	102,374	115,182			102,374	115,182
Sewer			<u>1,841,016</u>	<u>1,901,007</u>	<u>1,841,016</u>	<u>1,901,007</u>
Total program expenses	\$ 2,595,518	\$ 2,521,820	\$ 1,841,016	\$ 1,901,007	\$ 4,436,534	\$ 4,422,827
Increase in net assets	\$ 302,536	\$ 364,579	\$ 809,746	\$ 606,966	\$ 1,112,283	\$ 971,545
Net assets - beginning of year	<u>5,289,500</u>	<u>4,924,921</u>	<u>8,299,859</u>	<u>7,892,892</u>	<u>13,589,359</u>	<u>12,617,813</u>
Net assets - end of year	<u>\$ 5,592,036</u>	<u>\$ 5,289,500</u>	<u>\$ 9,109,604</u>	<u>\$ 8,299,859</u>	<u>\$14,701,642</u>	<u>\$13,589,359</u>

As shown in the above table total revenues were approximately \$5.5 million, of which 58% was obtained from property taxes, 23% for fees charged for services and 3% for state shared revenues. Total expenses were approximately \$4.4 million, of which 30% was for public safety, 12% for public works and 42% for sewer.

Business Type Activities

The City's business-type activities consists of the Sewer and Water Fund. The City provides sewer and water service to approximately 900 water units and approximately 1,100 sewer units.

The City Funds

The analysis of the City's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, Major Road Fund, Local Road Fund, and the Debt Service Fund.

The General Fund is the main operating fund of the City. Total revenues for the year were approximately \$2,075,600. Of this revenue, 81% was from property taxes, and 9% was from state sources. Total expenditures for the year were approximately \$1,981,000. Of these expenditures, 44% was for public safety, 14% was for public works, and 17% was for general government. At June 30, 2006 the unreserved fund balance of \$946,024 represented 48% of the total General Fund expenditures for the year.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2006

The City Funds (continued)

The Major Road Fund accounts for the repairs, maintenance and construction of all City major streets. The fund balance of this fund at June 30, 2006 was \$2,273.

The Local Road Fund accounts for repairs, maintenance and construction of all City local streets. The fund balance of this fund at June 30, 2006 was \$176,257

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund balance of this fund at June 30, 2006 was \$(297).

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. State revenue sharing was amended to reflect reduced distributions from the State of Michigan. Cable T.V. revenue, fines and reimbursements were amended to reflect increases. Restricted sanctuary contributions and related expenditures were amended to reflect an increase in contributions. Green Vision revenue and related expenditures were decreased to reflect related activity. Interest on investments was increased to reflect rising interest rates. Planner fees were amended for master plan updates and various new ordinances.

Total revenues were approximately \$7,300 above budgeted amounts. Total expenditures were approximately \$50,800 below budgeted amounts.

Capital Asset and Debt Administration

At the end of June 30, 2006, the City had \$22,957,933 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, equipment, roads, and sewer and water lines.

Major expenditures for capital assets during the year included the following.

1. Road improvements - \$262,120;
2. Computer equipment - \$4,359;
3. Police equipment - \$13,227;
4. Building improvement - \$8,922.

Long-Term Debt

The City's total indebtedness at June 30, 2006 was \$13,446,028. The City maintains an "A" rating from Standard & Poor's. Additional information on the City's long-term debt can be found in Note F.

Economic Factors and Next Year's Budgets and Rates

The City's 2007 budget was prepared using various economic factors as follows:

Revenues:

Property tax rates for 2007 are as follows:

	2007 Mills Levied	2006 Mills Levied
Operations:		
General operations	4.49	4.49
Library	0.30	0.30
Debt service:		
Water	0.82	0.85
Sewer	2.30	2.39
Sanctuary	0.96	0.93

Property tax revenues are expected to increase slightly. This is the result of expected increases in taxable value within the City. State shared revenues are expected to decrease slightly due to economic conditions in the State of Michigan. The building department permit revenue is also expected to be significantly lower due to the economic conditions in Michigan.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2006

Expenditures

Payroll expenditures are expected to increase to reflect approved wage increases. Employee benefits (health insurance) are expected to increase to reflect premium increases. The City has approved a transfer for retiree health insurance, recognizing the City's future liability. Local Road Fund expenditures have been increased to reflect resurfacing of local roads.

The 2007 General Fund budget expects a deficit of approximately \$36,700. The projected General Fund's fund balance at June 30, 2007 is approximately \$940,000 which represents approximated 43% of the General Fund expenditures for the year.

Request for Information

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions or concerns about this report or need additional information, contact the City Office, at the City of Orchard Lake Village, 3955 Orchard Lake Road, Orchard Lake, Michigan 48323.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and cash equivalents	\$ 624,304	\$ 570,460	\$ 1,194,764
Investments	1,178,371	1,078,678	2,257,050
Receivables:			
Trade		415,794	415,794
Special assessments	5,962	1,381,832	1,387,794
Interest		28,000	28,000
Other	14,482		14,482
Prepaid expenses	24,119		24,119
Due from agency funds	219		219
Due from other governments	24,913	145,487	170,400
Capital assets, net:			
Depreciable	999,411	16,812,805	17,812,216
Non-depreciable	5,145,717		5,145,717
Bond issuance costs, net		98,307	98,307
Total assets	<u>\$ 8,017,498</u>	<u>\$ 20,531,363</u>	<u>\$ 28,548,861</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and other liabilities	\$ 49,837	\$ 69,425	\$ 119,262
Accrued interest	15,245	69,042	84,287
Due to other governments	20,887		20,887
Internal balances	(2,264)	2,264	
Compensated absences	176,755		176,755
Noncurrent liabilities:			
Due within one year	260,000	1,382,303	1,642,303
Due in more than one year	1,905,000	9,898,725	11,803,725
Total liabilities	<u>\$ 2,425,461</u>	<u>\$ 11,421,759</u>	<u>\$ 13,847,220</u>
Net assets:			
Invested in capital assets, net of related debt	3,980,128	5,630,083	9,610,212
Restricted for:			
Major and local roads	178,530		178,530
Building Department	45,964		45,964
OSLA	15,820		15,820
Capital projects	9,099		9,099
Other	11,818	238,551	250,369
Unrestricted	1,350,677	3,240,970	4,591,647
Total net assets	<u>\$ 5,592,038</u>	<u>\$ 9,109,604</u>	<u>\$ 14,701,642</u>
Total liabilities and net assets	<u>\$ 8,017,498</u>	<u>\$ 20,531,363</u>	<u>\$ 28,548,861</u>

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 447,506	\$ 2,769	\$ 1,874	\$ 3,582
Public safety	1,329,330	236,745	1,600	3,616
Community and economic development	30,117			
Public works	552,837	42,298	151,450	
Health and welfare	8,000		8,000	
Culture and recreation	131,354		7,600	
Interest on long term debt	102,874			
Total governmental activities	\$ 2,595,518	\$ 281,796	\$ 170,524	\$ 7,198
Business-type activity:				
Water and sewer fund	1,841,016	997,060		351,046
Total primary government	\$ 4,436,534	\$ 1,278,857	\$ 170,524	\$ 358,244

General revenues:

Property taxes
State shared revenues
Interest income
Franchise fees
Special item - sale of fixed assets

Total general revenues and special items

Changes in net assets

Net assets - July 1, 2005

Net assets - June 30, 2006

The attached notes are an integral part of the financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (441,171)	\$	\$ (441,171)
(1,081,095)		(1,081,095)
(28,517)		(28,517)
(359,089)		(359,089)
(123,754)		(123,754)
(102,374)		(102,374)
\$ (2,135,998)	\$	\$ (2,135,998)
	(492,909)	(492,909)
\$ (2,135,998)	\$ (492,909)	\$ (2,628,907)
2,113,381	1,122,263	3,235,644
179,847		179,847
104,890	180,392	285,281
38,841		38,841
1,577		1,577
\$ 2,438,536	\$ 1,302,655	\$ 3,741,190
\$ 302,538	\$ 809,746	\$ 1,112,283
5,289,500	8,299,859	13,589,359
\$ 5,592,038	\$ 9,109,604	\$ 14,701,642

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Major Road Fund	Local Road Fund	Debt Service Fund
ASSETS				
Cash and cash equivalents	\$ 261,766	\$ 6,682	\$ 180,689	\$ 899
Investments	667,943			
Receivables:				
Special assessments				
Other	14,482			
Prepaid expenses	19,119			
Due from other funds	27,692		1,286	
Due from other governments	24,913			
Total assets	<u>\$ 1,015,914</u>	<u>\$ 6,682</u>	<u>\$ 181,975</u>	<u>\$ 899</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 37,910	\$ 691	\$ 1,646	\$ 447
Deferred revenue				
Due to other funds	945	3,718	4,072	749
Due to other governments	98			
Total liabilities	<u>\$ 38,953</u>	<u>\$ 4,409</u>	<u>\$ 5,717</u>	<u>\$ 1,196</u>
Fund balances:				
Reserved:				
Debt service				(297)
Other	30,937			
Unreserved, reported in:				
General Fund	946,024			
Special Revenue Funds		2,273	176,257	
Capital Project Funds				
Total fund balances	<u>\$ 976,961</u>	<u>\$ 2,273</u>	<u>\$ 176,257</u>	<u>\$ (297)</u>
Total liabilities and fund balances	<u>\$ 1,015,914</u>	<u>\$ 6,682</u>	<u>\$ 181,975</u>	<u>\$ 899</u>

The attached notes are an integral part of the financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 125,472	\$ 575,508
409,738	1,077,681
5,962	5,962
	14,482
5,000	24,119
945	29,922
	24,913
<u>\$ 547,117</u>	<u>\$ 1,752,587</u>

\$ 4,701	\$ 45,394
5,962	5,962
21,027	30,511
20,790	20,887
<u>\$ 52,479</u>	<u>\$ 102,754</u>

	(297)
5,000	35,937
	946,024
486,501	665,031
3,138	3,138
<u>\$ 494,638</u>	<u>\$ 1,649,833</u>
<u>\$ 547,117</u>	<u>\$ 1,752,587</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

Total governmental fund balances.		\$ 1,649,833
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in government activities are not financial resources, and are not reported in the governmental funds:		
Governmental capital assets	\$ 6,523,542	
Less accumulated depreciation	<u>(450,977)</u>	6,072,565
Special assessments are expected to be collected over several years, and are not available to pay for current year expenditures.		
		5,962
Long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported in the funds including related accrued interest.		
		(2,357,000)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in the statement of net assets		
		<u>220,678</u>
Net assets of governmental activities		<u>\$ 5,592,038</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	General	Major Road Fund	Local Road Fund	Debt Service Fund
Revenues:				
Taxes	\$ 1,687,364	\$	\$	\$ 322,107
Licenses and permits	49,013			
Federal sources	2,990			
State sources	185,303	83,377	64,632	
Charges for services	12,284			
Fines and forfeitures	45,710			
Interest and rents	67,657	1,700	6,985	2,298
Other	31,261		451	
Total revenues	\$ 2,075,581	\$ 85,077	\$ 72,068	\$ 324,406
Expenditures:				
Current:				
General government	397,794			
Public safety	867,455			
Community and economic development	27,941			
Public works	270,279	270,790	112,493	
Health and welfare				
Culture and recreation	20,802			
Other	448,256			
Capital outlay	8,547			
Debt service:				
Principal payments				220,000
Interest and fiscal charges				105,333
Total expenditures	\$ 1,981,075	\$ 270,790	\$ 112,493	\$ 325,333
Excess of revenues over (under) expenditures	\$ 94,506	\$ (185,713)	\$ (40,425)	\$ (927)
Other financing sources (uses):				
Operating transfers in		39,000	38,900	
Operating transfers out	(77,900)			
Total other financing sources (uses)	\$ (77,900)	\$ 39,000	\$ 38,900	\$
Excess of revenues and other sources over (under) expenditures and other uses	\$ 16,606	\$ (146,713)	\$ (1,525)	\$ (927)
Fund balance - July 1, 2005	960,355	148,986	177,782	629
Fund balance (deficit) - June 30, 2006	\$ 976,961	\$ 2,273	\$ 176,257	\$ (297)

The attached notes are an integral part of the financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 103,910	\$ 2,113,381
160,061	203,074
11,100	14,090
	333,312
	12,284
4,145	49,855
21,203	99,843
53,165	84,877
<u>\$ 353,583</u>	<u>\$ 2,910,716</u>

	337,794
167,926	1,035,381
1,600	29,541
27,317	680,879
8,000	8,000
105,410	126,212
	448,256
	8,547
	220,000
	<u>105,333</u>
<u>\$ 310,254</u>	<u>\$ 2,999,949</u>

\$ 43,330	\$ (89,227)
	77,900
	<u>(77,900)</u>
<u>\$</u>	<u>\$</u>

\$ 43,330	\$ (89,227)
451,308	1,739,061
<u>\$ 494,638</u>	<u>\$ 1,649,833</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Net change in fund balances - total governmental fund.	\$ (89,227)
--	-------------

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Expenditures for capital assets.	\$ 259,553	
Current year depreciation.	<u>(40,672)</u>	218,881

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. There were no proceeds.	(1,573)
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end.	(23,151)
--	----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	220,000
--	---------

Accrued interest is recorded in the statement of activities.	2,959
--	-------

Increase in accumulated employee vacation and sick pay are recorded when earned in the statement of activity.	(11,757)
--	----------

Internal service fund activity is not reported as part of governmental funds; transactions with organizations outside governmental funds are included in the statement of activities . . .	<u>(18,595)</u>
--	-----------------

Change in net assets of governmental activities.	<u>\$ 302,538</u>
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JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2006

	Business-type Activity- Water and Sewer Fund	Governmental Activity- Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 570,460	\$ 48,796
Investments	1,078,678	100,690
Receivables:		
Trade	415,794	
Special assessments	1,381,832	
Interest	28,000	
Due from other funds		3,852
Due from other governments	145,487	
Total current assets	\$ 9,620,252	\$ 153,338
Noncurrent assets:		
Capital assets, net	16,812,805	72,563
Other assets:		
Bond issuance costs, net	98,307	
Total assets	\$ 20,531,363	\$ 225,902
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	\$ 69,425	\$ 4,443
Accrued interest	69,042	
Due to other funds	2,264	780
Current portion of long term debt	1,382,309	
Total current liabilities	\$ 1,523,034	\$ 5,223
Noncurrent liabilities:		
Bond payable	9,898,725	
Total liabilities	\$ 11,421,759	\$ 5,223
Net assets:		
Invested in capital assets, net of related debt	5,630,083	72,563
Restricted for improvements	236,551	
Unrestricted	3,240,970	148,115
Total net assets	\$ 9,109,604	\$ 220,678
Total liabilities and net assets	\$ 20,531,363	\$ 225,902

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2006

	Business-type Activity- Water and Sewer Fund	Governmental Activity- Internal Service Fund
Operating revenue:		
Water and sewer sales.	\$ 948,324	\$
Water and sewer penalties.	18,938	
Permit fees - operating.	14,490	
Water meter maintenance - operating.	11,554	
Equipment rental		99,783
Miscellaneous income	3,814	
Total operating revenue.	\$ 997,060	\$ 99,783
Operating expenses:		
Salaries and benefits.		24,296
Payroll taxes.		1,659
Repairs and maintenance.		5,521
Utilities.		4,460
Gas and oil.		26,035
Tires.		3,045
Parts and supplies		12,855
Insurance.		6,800
Cost of water and sewer treatment.	631,618	
Water installation costs	20,327	
Sewer inspection costs	1,918	
Water transmission	44,691	
Sewer system maintenance	8,595	
Sewer pump station maintenance	90,106	
Water maintenance service.	8,564	
General & administrative expenses.	85,529	
Depreciation and amortization.	442,145	39,768
Professional fees.	3,400	800
Miscellaneous.	3,106	
Total operating expenses	\$ 1,339,998	\$ 125,440
Operating income (loss).	\$ (342,938)	\$ (25,657)
Nonoperating revenues (expenses):		
Property taxes	1,122,263	
State grant.		3,616
Capital charges.	3,697	
Interest income.	180,392	5,297
Debt service charge.	347,349	
Interest expense	(482,157)	
Gain on sale of assets		3,150
Reserve for operations	(18,860)	
Total nonoperating revenues (expenses)	\$ 1,152,684	\$ 12,063
Change in net assets	\$ 809,746	\$ (13,595)
Net assets - July 1, 2005.	8,299,859	234,273
Net assets - June 30, 2006	\$ 9,109,604	\$ 220,678

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2006

	Business-type Activity Water and Sewer Fund	Governmental Activity- Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	\$ 830,693	\$ 98,857
Payments to suppliers	(837,559)	(86,374)
Net cash provided (used) by operating activities	\$ (6,866)	\$ 12,483
Cash flows from capital and related financing activities:		
Collection of customer capital charges	3,697	
Collection of special assessment charges	127,553	
Collection of property taxes	1,125,743	
Collection of debt service charge	347,949	
State grant		3,616
Purchase of fixed assets		(13,227)
Proceeds from sale of capital assets		3,150
Principal paid on capital debt	(1,342,382)	
Interest paid on capital debt	(490,328)	
Reserve for operations	(18,860)	
Net cash provided (used) by capital and related financing activities	\$ (247,228)	\$ (6,461)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,199,000	302,000
Purchase of investments	(4,247,709)	(399,874)
Interest income	150,423	2,480
Net cash provided (used) by investing activities	\$ (898,286)	\$ (95,394)
Net increase (decrease) in cash and cash equivalents	\$ (1,152,380)	\$ (89,372)
Cash and cash equivalents - July 1, 2005	1,722,840	138,168
Cash and cash equivalents - June 30, 2006	\$ 570,460	\$ 48,796
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (342,938)	\$ (25,657)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	442,145	39,768
Changes in assets and liabilities:		
(Increase) decrease in receivables	(52,951)	
(Increase) decrease in due from other funds		(926)
(Increase) decrease in due from other governments	(114,016)	
Increase (decrease) in accounts payable and other liabilities	60,294	1,742
Increase (decrease) in due to other funds		(2,444)
Net cash provided (used) by operating activities	\$ (6,866)	\$ 12,483

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS

JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents.	\$ 86,120
Total assets	<u>\$ 86,120</u>
LIABILITIES	
Deposits payable and other liabilities	\$ 85,900
Due to other funds	<u>219</u>
Total liabilities.	<u>\$ 86,120</u>

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - Summary of Significant Accounting Policies

The accounting policies of the City of Orchard Lake Village (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Orchard Lake Village.

Reporting Entity

The City of Orchard Lake Village is governed by an elected seven-member Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the period. Property taxes, state-shared revenue, interest, reimbursement grants, and charges for services are considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued)

Governmental Funds

The City reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be account for in another fund.

Major Road Fund

The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Road Fund

The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust funds).

Proprietary Fund

The City reports the following major proprietary fund:

Water and Sewer Fund

The Water and Sewer Fund accounts for the operation, maintenance and distribution of the water and sewage systems administered by Oakland County.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund relates to charges to customers for sales and services. The Water and Sewer Fund recognized the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as nonoperating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Internal Service Fund

The City's only internal service fund is the Motor Pool Fund. This fund accounts for the costs of maintaining automobiles and equipment used by various City departments. Costs are billed to the departments for labor and materials.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Property Taxes

The City is a Home Rule City with a fiscal year beginning July 1 and ending June 30. Summer property taxes are levied on July 1 and become a lien on that date. Summer property taxes are payable between July 1 and September 1, without penalty. Summer taxes paid between September 2 and February 28 are subject to a 4% penalty plus a 1% penalty for each month delinquent. Summer real property taxes delinquent after February 28 are purchased by Oakland County from the City. Winter property taxes are levied on December 1 and become a lien on that date. Winter property taxes are payable between December 1 and February 14 without penalty. Winter taxes paid between February 15 and February 28 are subject to a 4% penalty. Winter real property taxes delinquent after February 28 are purchased by Oakland County from the City.

The 2005 taxable valuation of the City of Orchard Lake Village total \$345,920,390, on which ad valorem taxes levied consisted of 4.49 mills for the City of Orchard Lake Village operation purposes, 4.17 mills for debt, .30 mills for library, raising \$1,553,183 for operating, \$1,442,488 for debt, and \$103,776 for library. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Deposits are carried at cost and consist of cash on hand, checking accounts, certificates of deposit, savings accounts, and investments in mutual funds. Investments are stated at fair value, which is based on provided market values.

For purposes of the Statement of Cash Flows, the City considered cash deposits and certificates of deposits with a maturity of three months or less when purchased to be cash equivalents.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All trade and property tax receivables are considered fully collectible by the City. No provision has been made in the financial statements for noncollection.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water and sewer system. These amounts have been classified as restricted net assets.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, which include land, buildings, building improvements, vehicles, machinery, equipment and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. The City has elected not to retroactively report infrastructure assets.

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the assets.

Depreciation of all exhaustible fixed assets used by propriety fund types is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund type balance sheets. Depreciation has been provided over the estimated useful lives.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Water and Sewer System	50
Buildings and Improvements	10-50
Vehicles	3-10
Equipment (Police, Highway, Office)	3-25
Roads	20-30

Compensated Absences (Sick and Vacation Leave)

Sick and vacation pay earned are recognized in the governmental financial statements when they are paid. The long-term portion of compensated absences related to governmental funds is a liability recorded in the Statement of Net Assets.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and net of any deferred charges on bond refundings. Issuance costs are reported as deferred charges.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance present tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end. The City's appropriation resolution is generally passed during the May preceding the fiscal year in which the planned expenditures relate. Subsequent amendments are made to avoid unfavorable variances from the original budget. Related resolutions are made to state the purpose and amount of the changes. The City Clerk has the responsibility to enforce the budget. Unused appropriations do not carry forward to the next year.

The budget document presents information by fund, function, department and line items. The legal level (the level at which expenditures may not legally exceed appropriations) of budgetary control adopted by the board is at the department (activity) level.

The City Council must approve budget amendments at the activity level and supplemental appropriations, which affect total fund expenditures. The Clerk can transfer appropriations between line items within a department or activity without governing body approval.

Supplemental appropriations were necessary during the year, which increased total expenditures.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

P.A. 2 of 1968 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

Fund Deficit

At June 30, 2006, the City has a deficit of \$297 in the Debt Service Fund as the result of taxes assessed and interest not being sufficient to cover expenses in the current year. Subsequent year tax assessments will be adjusted to eliminate the deficit.

NOTE C - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City has designated various banks for the deposit of City funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

At June 30, 2006 the City was invested in a fund that was not in accordance with its investment policy; it was composed of investments not allowed under statutory authority.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE C - Deposits and Investments (continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,093,545 of bank deposits (certificates of deposit, mutual funds, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City had no investment securities that were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Commercial paper	\$2,257,050	91 days

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market fund	\$ 5,788	AAAm	S&P
Bank investment pools	184,840	A-	S&P
Commercial paper	2,257,050	A-1+/P1	S&P/Moody's

Concentration of Credit Risk

The City requires that no more than 50% of the total investment portfolio, excluding U.S. Treasury securities and authorized investment pools, be invested in a single security type or with a single financial institution. The City has more than 5 percent of its investments in the following:

Commercial Paper - GE Capital	100%
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CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE D - Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,145,717	\$	\$	\$ 5,145,717
Construction in progress - roads	<u>15,849</u>	<u></u>	<u>15,849</u>	<u></u>
Subtotal	<u>\$ 5,161,566</u>	<u>\$</u>	<u>\$ 15,849</u>	<u>\$ 5,145,717</u>
Capital assets being depreciated:				
Buildings and improvements	783,773	8,922		792,695
Highway equipment	65,676		3,770	61,906
General equipment	73,310	4,359	6,605	71,064
Police equipment	61,999	13,227		75,226
Vehicles	333,914		20,177	313,737
Roads	<u>251,945</u>	<u>262,120</u>	<u></u>	<u>514,065</u>
Subtotal	<u>\$ 1,570,617</u>	<u>\$ 288,628</u>	<u>\$ 30,552</u>	<u>\$ 1,828,693</u>
Less accumulated depreciation for:				
Buildings and improvements	367,178	16,573		383,751
Highway equipment	63,531	780	3,770	60,541
General equipment	41,860	4,949	5,032	41,777
Police equipment	54,782	6,019		60,801
Vehicles	244,172	32,968	20,177	256,963
Roads	<u>6,299</u>	<u>19,150</u>	<u></u>	<u>25,449</u>
Subtotal	<u>\$ 777,822</u>	<u>\$ 80,439</u>	<u>\$ 28,979</u>	<u>\$ 829,282</u>
Net capital assets being depreciated	<u>\$ 792,795</u>	<u>\$ 208,189</u>	<u>\$ 1,573</u>	<u>\$ 999,411</u>
Net capital assets	<u>\$ 5,954,361</u>	<u>\$ 208,189</u>	<u>\$ 17,422</u>	<u>\$ 6,145,128</u>
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$14,827,025	\$	\$	\$14,827,025
Water system	<u>6,500,000</u>	<u></u>	<u></u>	<u>6,500,000</u>
Subtotal	<u>\$21,327,025</u>	<u>\$</u>	<u>\$</u>	<u>\$21,327,025</u>
Less accumulated depreciation for:				
Sewer system	2,841,847	296,540		3,138,387
Water system	<u>1,245,833</u>	<u>130,000</u>	<u></u>	<u>1,375,833</u>
Subtotal	<u>\$ 4,087,680</u>	<u>\$ 426,540</u>	<u>\$</u>	<u>\$ 4,514,220</u>
Net capital assets being depreciated	<u>\$17,239,345</u>	<u>\$ (426,540)</u>	<u>\$</u>	<u>\$16,812,805</u>
Net capital assets	<u>\$17,239,345</u>	<u>\$ (426,540)</u>	<u>\$</u>	<u>\$16,812,805</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE D - Capital Assets (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 18,553
Public safety	34,597
Public works	26,499
Recreation and culture	<u>790</u>
Total governmental activities	<u>\$ 80,439</u>
Business-type activities:	
Water and sewer	<u>\$428,540</u>

Construction Commitments

The City has active construction projects at year-end. The projects include paving of roads. At year-end the City's commitments with contracts are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Roads	<u>\$ _____</u>	<u>\$ 188,100</u>

NOTE E - Interfund Receivables, Payables and Transfers

The following are the interfund receivables at June 30, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Road	\$ 1,167
	Local Road	1,618
	Building	14,679
	Drug Forfeiture	658
	Debt Service	749
	Motor Pool	780
	Water & Sewer	2,264
	Trust & Agency	219
	OLSA	<u>5,558</u>
	Total General Fund	\$27,692
Local Road Fund	Pelletier Paving	132
	Major Road	<u>1,153</u>
	Total Local Road Fund	\$ 1,285
Library Fund	General Fund	945
Motor Pool Fund	Major Road	1,398
	Local Road	<u>2,454</u>
	Total Motor Pool	<u>\$ 3,852</u>
	Total interfund receivable	<u>\$33,774</u>

These balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE E - Interfund Receivables, Payables and Transfers (continued)

Interfund Transfers

	<u>Transfer in</u>	<u>Transfers (Out)</u> <u>General Fund</u>
Major Road	\$	39,000
Local Road		<u>38,900</u>
	\$	<u>77,900</u>

Transfer from General Fund to Major Road and Local Road Funds is to subsidize the future costs of road improvements.

NOTE F - Long-Term Debt

The following is a summary of general long-term debt of the City for the year ended June 30, 2006:

	<u>General Obligation</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2005	\$2,385,000	\$ 164,998	\$2,549,998
Principal retirements	(220,000)		(220,000)
Increase in obligation for compensate absences		<u>11,757</u>	<u>11,757</u>
Balance at June 30, 2006	<u>\$2,165,000</u>	<u>\$ 176,755</u>	<u>\$2,341,755</u>

The following is a summary of long-term debt transactions of the City's Enterprise Fund for the year ended June 30, 2006:

	<u>General Obligation Bonds</u>
Balance at July 1, 2005	\$12,623,410
Principal retirement	<u>(1,342,382)</u>
Balance at June 30, 2006	<u>\$11,281,028</u>

General Long-Term Debt - Bonds Payable

On February 12, 1992, general obligation bonds in the amount of \$3,450,000 were sold for the purpose of acquiring the Nature Sanctuary property. As noted below there was a defeasance of \$2,755,000 of this debt during 1998.

On April 23, 1998, general obligation bonds in the amount of \$2,985,000 were sold for the purpose of retiring \$2,755,000 of the Nature Sanctuary debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

As a result of the advance refunding, the City reduced its total debt service requirements by \$447,742, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,766. Schedule of principal and interest payments are as follows:

	<u>Due November 1</u>			<u>Due May 1</u>
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest</u>
2006	\$ 260,000	\$ 49,771	\$ 309,771	\$
2007	295,000	43,921	338,921	43,921
2008	335,000	37,284	372,284	37,284
2009	385,000	29,663	414,663	29,663
2010	430,000	20,808	450,808	20,808
2011	<u>460,000</u>	<u>10,810</u>	<u>470,810</u>	<u>10,810</u>
	<u>\$2,165,000</u>	<u>\$ 192,257</u>	<u>\$2,357,257</u>	<u>\$ 142,486</u>

The bonds bear interest at a rate of 3.75% to 4.7%.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued)

Compensated Absences

Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts accumulated that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Enterprise Fund - Bonds Payable

Bonds payable at June 30, 2006 are comprised of the following individual issues:

Pursuant to an election held November 7, 1989 the electorate of the City authorized the issuance of bonds in an amount not to exceed \$9,300,000 for the purpose of defraying part of the cost of acquiring and constructing a sanitary sewage collection and disposal system. Taxes imposed by the City are not subject to limitation as to rate or amount pursuant to the November 7, 1989 election.

On October 17, 1990, bonds in the amount of \$2,135,000 were sold at public sale by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$1,650,000 of this debt during 1999.

On April 12, 1994, sewage disposal bonds in the amount of \$5,065,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$3,510,000 of this debt during 1999.

On February 14, 1994 the City Council approved the borrowing of up to \$5,500,000 additional to complete the sewer construction project. On April 12, 1994, sewage disposal bonds in the amount of \$5,500,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. As noted below there was a defeasance of \$3,945,000 of this debt during 1999.

On April 8, 1993, sewage disposal bonds in the amount of \$2,100,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$1,290,000 of this debt during 2004.

On September 29, 1999, general obligation bonds in the amount of \$9,770,000 were sold by Oakland County for the purpose of retiring \$9,105,000 of the sewage disposal debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

As a result of the advance refunding, the City reduced its total debt service requirements by \$503,026, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$273,245. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2007	\$ 870,000	\$ 145,886	\$ 1,015,886	\$	
2008	900,000	125,441	1,025,441	125,441	
2009	955,000	103,841	1,058,841	103,841	
2010	1,015,000	80,444	1,095,444	80,444	
2011	820,000	55,069	875,069	55,069	
2012	865,000	34,364	899,364	34,364	
2013	465,000	12,090	477,090	12,090	
	<u>\$6,710,000</u>	<u>\$ 721,881</u>	<u>\$ 7,431,881</u>	<u>\$ 557,135</u>	

The bonds bear interest at a rate of 3.75% to 4.70%.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued)Enterprise Fund - Bonds Payable (continued)

During the year ended June 30, 1992 the Oakland County Drain Commission issued Evergreen - Farmington Sewage Disposal bonds for permanent meter and interceptor rehabilitation. The City's allocated share of these bonds was \$31,545. On August 1, 2001 the County refunded this debt. As a result of this the scheduled payments between the City and County have been modified. Schedule of remaining principal and interest payments are as follows:

Year	Due May 1		Total	Due November 1	
	Principal	Interest		Interest	
2006	\$	\$	\$	\$	209
2007	2,303	209	2,512		165
2008	2,660	165	2,825		114
2009	2,977	113	3,090		54
2010	3,088	55	3,143		
	<u>\$ 11,028</u>	<u>\$ 542</u>	<u>\$ 11,570</u>	<u>\$</u>	<u>542</u>

The bonds bear interest at a rate of 3.5%.

Pursuant to an election held November 6, 1990 the electorate of the City authorized the issuance of bonds in an amount not to exceed \$6,000,000 for the purpose of defraying part of the cost of acquiring and constructing a water supply system. Taxes imposed by the City are not subject to limitation as to rate or amount pursuant to the November 6, 1990 election.

On April 12, 1994, water supply bonds in the amount of \$3,750,000 were sold by Oakland County. These bonds are part of the \$6,000,000 voter approved authorization. As noted below there was a defeasance of \$2,605,000 of this debt during 2003.

On May 1, 2003, general obligation bonds in the amount of \$2,770,000 were sold by Oakland County for the purpose of retiring \$2,605,000 of the water supply debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

As a result of the advance refunding, the City reduced its total debt service requirements by \$366,975, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$313,307. Schedule of principal and interest payments are as follows:

Year	Due November 1		Total	Due May 1	
	Principal	Interest		Interest	
2006	\$ 245,000	\$ 30,617	\$ 275,617	\$	
2007	250,000	28,351	278,351		28,351
2008	255,000	25,601	280,601		25,601
2009	265,000	22,350	287,350		22,350
2010	275,000	18,508	293,508		18,508
2011	280,000	14,039	294,039		14,039
2012	285,000	9,139	294,139		9,139
2013	210,000	3,937	213,937		3,937
	<u>\$2,065,000</u>	<u>\$ 152,542</u>	<u>\$ 2,217,542</u>	<u>\$</u>	<u>121,925</u>

The bonds bear interest at a rate of 1.50% to 3.75%.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued)

Enterprise Fund - Bonds Payable (continued)

On February 14, 1994 the City Council approved the borrowing of up to \$500,000 additional to complete the water construction project. On April 12, 1994 water supply bonds in the amount of \$500,000 were sold by Oakland County. Schedule of principal and interest payments are as follows:

Year	Due November 1		Due May 1	
	Principal	Interest	Total	Interest
2006	\$ 30,000	\$ 8,523	\$ 38,523	\$
2007	30,000	7,667	37,667	7,667
2008	30,000	6,798	36,798	6,798
2009	35,000	5,913	40,913	5,913
2010	35,000	4,862	39,862	4,862
2011	40,000	3,813	43,813	3,813
2012	40,000	2,592	42,592	2,592
2013	45,000	1,373	46,373	1,373
	<u>\$ 285,000</u>	<u>\$ 41,541</u>	<u>\$ 326,541</u>	<u>\$ 33,018</u>

The bonds bear interest at a rate of 4.45% to 6.35%.

On April 8, 1993 water supply bonds in the amount of \$2,250,000 were sold by Oakland County. These bonds are part of the \$6,000,000 voter approved authorization. As noted below there was a defeasance of \$1,350,000 for debt during 2004.

On January 8, 2004, general obligation bonds in the amount of \$2,770,000 were sold by Oakland County for the purpose of retiring \$2,640,000 of the sewer and water supply debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

As a result of the advance refunding, the City reduced its total debt service requirements by \$275,578, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$246,061. Schedule of principal and interest payments are as follows:

Year	Due November 1		Due May 1	
	Principal	Interest	Total	Interest
2006	\$ 285,000	\$ 29,282	\$ 314,282	\$
2007	310,000	26,361	336,361	26,361
2008	315,000	23,106	338,106	23,106
2009	305,000	19,563	324,563	19,563
2010	330,000	15,750	345,750	15,750
2011	340,000	11,212	351,212	11,212
2012	325,000	5,687	330,687	5,688
	<u>\$2,210,000</u>	<u>\$ 130,961</u>	<u>\$ 2,340,961</u>	<u>\$ 101,680</u>

The bonds bear interest at a rate of 2.00% to 3.50%.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued)

Summary of Long-Term Debt Requirements:

The amounts necessary to amortize the debt described above for years subsequent to June 30, 2006 (excluding compensated absences) are as follows:

Year ending June 30,	General Long-Term Debt		Enterprise Fund	
	Principal	Interest	Principal	Interest
2007	\$ 260,000	\$ 93,692	\$ 1,382,303	\$ 441,852
2008	295,000	81,205	1,462,660	369,542
2009	335,000	66,947	1,502,977	332,840
2010	385,000	50,471	1,563,088	271,340
2011	430,000	31,618	1,655,000	203,697
2012-2014	460,000	10,810	3,715,000	222,498
	<u>\$ 2,165,000</u>	<u>\$ 334,743</u>	<u>\$11,281,028</u>	<u>\$1,861,767</u>

NOTE G - Retirement Plans

Defined Contribution Plan:

Effective January 1, 2000, the City established a defined contribution pension plan for all new full-time police employees, administered by ICMA. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual accounts are to be determined instead of specifying the amount of benefit the individual is to receive. Participants become one-hundred percent vested after seven years of service. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earnings. City contributions are calculated on an employee's base salary at a rate of 12.5%, in accordance with the terms of negotiated labor contracts. Employees may make additional voluntary contributions to the plan.

In accordance with these requirements, the City contributed \$21,911 during the current year.

Deferred Compensation Plan:

The City offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balance and activities are not reflected in the City's financial statements.

Defined Benefit Plan:

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance; disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. All City full-time employees are eligible to participate in the system. General employees who retire after age 55 with 10 years of credited service are entitled to a retirement benefit, payable for life, equal to 2.0% of their 5-year final average compensation (FAC). Police employees, appointed officials and building official are also eligible for these retirement benefits but are equal to 2.5% of their FAC, with a maximum benefit of 80% of FAC. Vested employees may retire after age 50 and receive reduced retirement benefits. The system also provides disability benefits to a member who becomes totally and permanently disabled while employed by the City and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes. If a member or vested former member with 10 or more years of service dies in a non-duty related death before retirement, a monthly survivor allowance may be payable. The service requirement is waived in a duty related death. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE G - Retirement Plans (continued)

Defined Benefit Plan (continued)

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining unit or personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was 12.27% of annual covered payroll for general employees, 10.89% for police employees, 14.53% for appointed officials, and 10.88% for building official. The clerk and police are required to contribute 2.5% of their pay.

During the fiscal year ended June 30, 2006, the City's annual pension cost of \$85,904 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total actuarially determined contribution requirement is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The amortization period is closed for general and police employees; open for appointed and building official.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten year period, instead of five. The unfunded actuarial liability is being amortized as a level percentage of payroll over 30 years, with a gradual reduction to 25 years for open divisions.

Three Year Trend Information for GASB Statement No. 27:

<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ 87,522	100%	\$ -0-
June 30, 2005	84,472	100%	-0-
June 30, 2006	85,904	100%	-0-

Required Supplementary Information for GASB Statement No. 27:

<u>Actuarial Valuation Date</u>	<u>Actuarial value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as of Percentage of Covered Payroll (b-a)/(c)</u>
<u>December 31,</u>						
2003	\$ 2,393,975	\$ 2,975,798	\$ 581,763	80.4%	\$712,503	81.7%
2004	2,582,788	3,387,895	805,107	76.2%	671,391	119.9%
2005	2,745,692	3,642,374	896,682	75.4%	704,441	127.3%

NOTE H - Post Employment Benefits:

The City provides hospitalization insurance coverage for employees (and their spouses) who retire under the Michigan Employees Retirement System. To qualify, the employee must retire at or after age 55 and complete at least ten (10) years of employment with the City.

The coverage for retired employees who were under the American Federation of State, County and Municipal Employees union contract is as follows. Coverage shall be provided until the retired employee attains age 65 or until he (she) becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first. In addition to this, the City will contribute \$200 per employee and per spouse each month toward the supplemental coverage cost for retired employees who have become eligible for Medicare. The City's cost of coverage for a retired employee shall be limited to the required premium for such retired employee and their spouse, if any.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE H - Post Employment Benefits (continued)

The coverage for retired employees who were under the Police Officers Labor Council union contract is as follows. Coverage shall be provided until the retired employee attains age 65 or until he (she) becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first. Coverage shall be provided for the employee's spouse until the spouse attains age 65 or until the spouse becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first, but in no case shall coverage be provided for a period longer than three (3) years from the date the employee is eligible for Medicare. In addition to this, the City will contribute \$200 per employee and per spouse each month toward the supplemental coverage cost for retired employees who have become eligible for Medicare.

The City's cost of retiree health care benefits is recognized as an expense in the year the hospitalization insurance coverage applies to. This totaled \$19,956 for the year ended June 30, 2006 and covered four retired employees.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE I - The City has an agreement with the Tri-City Fire Department for fire protection. The Tri-City Fire Department services the City of Sylvan Lake, the City of Keego Harbor and the City of Orchard Lake Village. The governing body of the Tri-City Fire Department is made up of two members from each city. The fire protection agreement is an annual agreement and can be renewed by the governing bodies of each of the cities. Any city may withdraw from this agreement as of the last day of the term, or at any time upon not less than six months notice. Each city is obligated to pay to the Tri-City Fire Department an amount equal to one-third of the total approved annual budget of the Tri-City Fire Department. As of June 30, 2006, the Tri-City Fire Department has a fund surplus with assets being accumulated for future acquisitions. As included in the General Fund statement of expenditures, during the year ended June 30, 2006, \$203,963 was paid for fire protection to the Tri-City Fire Department. Financial statements of the Tri-City Fire Department are available for review at the fire hall.

NOTE J - The City has renewed its lease agreement with the Greater West Bloomfield Historical Society to lease the old City Hall facilities for an annual amount of one dollar. The lease automatically renews unless cancelled by either party.

NOTE K - The City has entered into a contract with Allied Waste Services for refuse pickup and disposal. The length of the contract is for 36 months, effective July 1, 2003 and runs through June 30, 2006. Monthly charges will be based on residential units serviced. The monthly charge per residential unit for the first year of the contract is \$12.09, \$12.45 for the second year and \$12.83 for the third year of the contract.

NOTE L - Library Services

The City has a contract with West Bloomfield Township Public Library to provide library services to residents of the City. Property owners of the City are assessed .3 mill for library services and the City is required to pay this amount (.3 mill) to West Bloomfield Township Public Library. The contract covers the period December 1, through November 30th of each year and is renewed automatically unless cancelled by six months written notice prior to the end of the current year period.

NOTE M - The Trust and Agency Fund cash balance is composed of the following accounts at June 30, 2006:

Building bond	\$ 52,904
Water quality improvement	16,388
Tax collection	15,962
Site plan review	<u>866</u>
Total cash	<u>\$ 86,120</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE N - On July 1, 1981, a Motor Pool Fund was established to account for the operation of the City's automotive and highway use equipment. Equipment with a cost of \$252,181 was contributed to the Motor Pool Fund from the General Fixed Assets. Rent is charged to the General Fund and Major and Local Road Funds on a cost reimbursement basis. For the year ended June 30, 2006, the Motor Pool Fund received rental income of \$62,100 from the General Fund, \$21,736 from the Local Road Fund and \$15,948 from the Major Road Fund.

NOTE O - The City participates in an annual programming grant that Comcast Cable provides. The grant money is paid to West Bloomfield/Tri-Cities Cable Joint Venture Fund, which is under the joint ownership of four communities - the Cities of Orchard Lake Village, Keego Harbor, Sylvan Lake and the Township of West Bloomfield. The money in this fund must be used for the support of community cable programming. The fund is administered by the West Bloomfield Township accounting department. No part of this money is reflected in these financial statements.

NOTE P - Litigation and Contingent Liabilities

The City is defendant in various litigations. The City's attorney and management are of the opinion that any potential liability resulting from these cases, either can not be determined or should be within the insurance coverage of the City, therefore, is not reflected in the financial statements.

NOTE Q - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental and life claims. The City participates in the Michigan Municipal Risk Management Authority state pool for claims relating to property loss, torts, errors and omissions and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program; state pool member premiums are aggregated and used to purchase excess insurance coverage, some of which is underwritten by the Authority.

NOTE R - Reserved Fund Balances

Fund balances have been reserved for the following purposes:

	General Fund	OLSA Fund
Transportation	\$ 3,818	\$
Nature sanctuary	6,000	
Workers compensation insurance	19,119	
Weed Harvesting	<u> </u>	<u>5,000</u>
	<u>\$30,937</u>	<u>\$5,000</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Taxes:				
Current levy - general	\$ 1,555,255	\$ 1,549,850	\$ 1,551,778	\$ 1,928
Interest and penalty on delinquent taxes	45,000	40,875	40,865	(10)
Collection fees	90,000	94,725	94,721	(4)
	<u>\$ 1,690,255</u>	<u>\$ 1,685,450</u>	<u>\$ 1,687,364</u>	<u>\$ 1,914</u>
Licenses and permits:				
General licenses	1,700	1,450	1,450	
Cable T.V.	29,000	36,000	38,841	2,841
Lawn fertilizer fees	1,500	2,650	2,650	
Other	75	65	73	8
	<u>\$ 32,275</u>	<u>\$ 40,165</u>	<u>\$ 43,013</u>	<u>\$ 2,848</u>
Federal sources - grants	3,000	3,000	2,990	(10)
State sources:				
Sales tax	190,000	178,000	177,091	(909)
Liquor licenses	2,000	2,750	2,756	6
SMART	3,582	3,582	3,582	
Criminal justice training	1,700	1,850	1,874	24
	<u>\$ 197,282</u>	<u>\$ 186,182</u>	<u>\$ 185,303</u>	<u>\$ (879)</u>
Charges for services:				
Green Vision program	18,000	11,500	11,520	20
Weed cutting	500	750	764	14
	<u>\$ 18,500</u>	<u>\$ 12,250</u>	<u>\$ 12,284</u>	<u>\$ 34</u>
Fines and forfeits:				
Fines - 48th district court	22,000	41,000	41,186	186
Parking violations	750	2,650	2,870	220
Other	1,500	1,500	1,654	154
	<u>\$ 24,250</u>	<u>\$ 45,150</u>	<u>\$ 45,710</u>	<u>\$ 560</u>
Interest and rentals:				
Interest on investments	24,000	65,000	67,407	2,407
Room rental	200	250	250	
	<u>\$ 24,200</u>	<u>\$ 65,250</u>	<u>\$ 67,657</u>	<u>\$ 2,407</u>
Other:				
Contributions	200	5,850	6,100	250
Reimbursements and refunds	12,000	22,800	22,657	(143)
Miscellaneous	2,800	2,200	2,503	303
	<u>\$ 15,000</u>	<u>\$ 30,850</u>	<u>\$ 31,261</u>	<u>\$ 411</u>
Total revenues	<u>\$ 2,004,762</u>	<u>\$ 2,068,297</u>	<u>\$ 2,075,581</u>	<u>\$ 7,284</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures:				
General government:				
Elections:				
Fees and per diem.	\$ 1,000	\$ 800	\$ 754	\$ 46
Supplies	1,500	2,100	1,922	178
Legal notices.	850	700	546	154
	<u>\$ 3,350</u>	<u>\$ 3,600</u>	<u>\$ 3,222</u>	<u>\$ 378</u>
Assessing:				
Assessor and assistant	41,500	40,000	39,495	505
Supplies	3,000	3,900	3,786	114
Data processing and personal property assessing.	5,000	3,500	2,641	859
	<u>\$ 49,500</u>	<u>\$ 47,400</u>	<u>\$ 45,923</u>	<u>\$ 1,477</u>
Legal fees	56,400	48,400	43,915	4,485
Clerk:				
Salaries	150,327	158,550	157,685	865
Postage.	7,500	6,000	5,887	113
Office supplies and equipment.	7,650	7,800	6,395	1,405
Printing	5,000	5,000	1,573	3,427
Legal notices.	3,500	2,500	2,039	461
Miscellaneous.	4,300	5,000	4,963	37
	<u>\$ 178,277</u>	<u>\$ 184,850</u>	<u>\$ 178,544</u>	<u>\$ 6,306</u>
Audit:				
Audit fees	6,200	6,200	6,200	
Consultations.	1,500	1,500	1,430	70
	<u>\$ 7,700</u>	<u>\$ 7,700</u>	<u>\$ 7,630</u>	<u>\$ 70</u>
City Hall and grounds:				
Telephone.	4,000	3,100	2,413	687
Utilities.	8,800	10,000	8,763	1,237
Custodial and cleaning supplies.	5,600	6,100	5,860	240
Repairs and maintenance.	29,500	33,200	32,895	305
Administrative	10,000	8,750	8,077	673
Furniture and equipment.			552	(552)
	<u>\$ 57,900</u>	<u>\$ 61,150</u>	<u>\$ 58,560</u>	<u>\$ 2,590</u>
Total general government	\$ 353,127	\$ 353,100	\$ 337,794	\$ 15,306

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (continued):				
Public safety:				
Police department:				
Salaries	518,270	517,825	511,340	6,485
Clerical	33,615	33,750	33,537	213
Court expenses			44	(44)
Police supplies	1,200	1,200	1,102	98
Uniform allowance	10,000	10,000	10,000	
Equipment rental	34,200	34,200	34,200	
Maintenance and repairs - radios	300	200	132	68
Weapons training	4,800	4,450	4,450	
Office supplies and L.E.I.N.	9,850	9,850	7,682	2,168
Dispatch	51,500	55,000	54,761	239
Criminal justice training	4,000	4,000	3,675	325
Miscellaneous and tuition	4,000	3,850	2,568	1,282
	\$ 671,535	\$ 674,325	\$ 663,493	\$ 10,832
Fire protection (Tri-City Fire Department):				
Fire protection agreement (Note 1)	204,000	204,000	203,963	38
Total public safety	\$ 875,535	\$ 878,325	\$ 867,455	\$ 10,870
Community and economic development:				
Planning Commission:				
Planner fees	10,000	28,000	25,092	2,908
Clerical wages	3,000	1,500	1,318	182
Supplies and notices	500	500	341	159
	\$ 13,500	\$ 30,000	\$ 26,752	\$ 3,248
Environmental consultant	1,500	2,000	1,190	810
Total community and economic development	\$ 15,000	\$ 32,000	\$ 27,941	\$ 4,059
Public works:				
Public works department:				
Salaries and wages	88,500	89,200	86,053	3,147
Equipment rental	27,900	27,900	27,900	
Garage supplies	3,500	4,000	3,749	251
Uniform allowance	1,300	1,500	1,463	38
Miscellaneous	1,300	3,625	3,460	165
	\$ 122,500	\$ 126,225	\$ 122,625	\$ 3,600
Engineering fees	4,500	2,500	1,564	937

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (continued):				
Public works (continued):				
NPDES compliance	10,000	6,700	7,619	(919)
Green Vision program	24,600	18,000	17,087	913
Street lighting	2,600	2,750	2,483	267
Refuse collection & No HAZ	117,400	117,800	117,403	397
Corridor study		1,250	1,500	(250)
Total public works	\$ 281,600	\$ 275,225	\$ 270,279	\$ 4,946
Culture and recreation - sanctuary	13,000	21,000	20,802	198
Other:				
Payroll taxes	65,000	66,500	66,469	31
Insurance	69,500	71,500	71,313	187
Hospitalization insurance	199,000	189,000	182,784	6,216
Dental insurance	13,000	13,000	12,501	499
Optical insurance	3,200	2,700	2,476	224
Group insurance	14,000	13,500	13,068	432
Retirement plan	100,000	100,000	99,646	354
Reserve for retiree	5,000	5,000		5,000
Contingency reserve		12		12
	\$ 468,700	\$ 461,212	\$ 448,256	\$ 12,956
Capital outlay - City Hall and grounds	5,000	11,000	8,547	2,453
Total expenditures	\$ 2,011,962	\$ 2,031,862	\$ 1,981,075	\$ 50,787
Excess of revenues over (under) expenditures	\$ (7,200)	\$ 36,435	\$ 94,506	\$ 58,071
Other financing uses - operating transfers out	54,150	77,900	77,900	
Excess of revenues over (under) expenditures and other uses	\$ (61,350)	\$ (41,465)	\$ 16,606	\$ 58,071
Fund balance - July 1, 2005	960,355	960,355	960,355	
Fund balance - June 30, 2006	\$ 899,005	\$ 918,890	\$ 976,961	\$ 58,071

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
MAJOR ROAD FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources - Public Act 51	\$ 85,500	\$ 83,250	\$ 83,377	\$ 127
Interest on Investments	2,000	1,700	1,700	
Total revenues	\$ 87,500	\$ 84,950	\$ 85,077	\$ 127
Expenditures:				
Salaries and wages	15,000	15,500	15,000	500
Routine purchases	15,000	13,000	11,605	1,395
Purchased services	200,000	226,200	227,638	(1,438)
Audit fees	500	600	600	
Equipment rental	12,500	17,000	15,948	1,052
Total expenditures	\$ 243,000	\$ 272,300	\$ 270,790	\$ 1,510
Excess of revenues over (under) expenditures	\$ (155,500)	\$ (187,350)	\$ (185,713)	\$ 1,637
Other financing sources:				
Transfer from General Fund	8,500	39,000	39,000	
Excess of revenues and other sources over (under) expenditures	\$ (147,000)	\$ (148,350)	\$ (146,713)	\$ 1,637
Fund balance - July 1, 2005	148,986	148,986	148,986	
Fund balance - June 30, 2006	\$ 1,986	\$ 636	\$ 2,273	\$ 1,637

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
LOCAL ROAD FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources:				
Public Act 51	\$ 59,000	\$ 58,150	\$ 58,174	\$ 24
Metro Authority	1,400	6,450	6,459	9
Interest on Investments	1,000	6,750	6,985	235
Reimbursements and refunds			451	451
Total revenues	\$ 61,400	\$ 71,350	\$ 72,068	\$ 718
Expenditures:				
Salaries and wages	20,000	20,000	19,461	539
Routine purchases	17,000	17,000	14,725	2,275
Purchased services	73,000	60,000	55,971	4,029
Audit fees	500	600	600	
Equipment rental	18,000	22,000	21,736	265
Total expenditures	\$ 128,500	\$ 119,600	\$ 112,493	\$ 7,107
Excess of revenues over (under) expenditures	\$ (67,100)	\$ (48,250)	\$ (40,425)	\$ 7,825
Other financing sources:				
Transfer from General Fund	42,500	38,900	38,900	
Excess of revenues and other sources over (under) expenditures	\$ (24,600)	\$ (9,350)	\$ (1,525)	\$ 7,825
Fund balance - July 1, 2005	177,782	177,782	177,782	
Fund balance - June 30, 2006	\$ 153,182	\$ 168,432	\$ 176,257	\$ 7,825

OTHER SUPPLEMENTAL INFORMATION

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue Funds	Capital Project Fund Pelletier Paving	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 122,202	\$ 3,270	\$ 125,472
Investments	409,738		409,738
Receivables - special assessments		5,962	5,962
Prepaid expenses	5,000		5,000
Due from other funds	945		945
Total assets	<u>\$ 537,886</u>	<u>\$ 9,232</u>	<u>\$ 547,117</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 4,701	\$	\$ 4,701
Deferred revenue		5,962	5,962
Due to other funds	20,895	132	21,027
Due to other governments	20,790		20,790
Total liabilities	\$ 46,385	\$ 6,094	\$ 52,479
Fund balances:			
Reserved	5,000		5,000
Unreserved	486,501	3,138	489,638
Total fund balances	<u>\$ 491,501</u>	<u>\$ 3,138</u>	<u>\$ 494,638</u>
Total liabilities and fund balance	<u>\$ 537,886</u>	<u>\$ 9,232</u>	<u>\$ 547,117</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Building Fund	Drug Forfeiture Fund	Library Fund	Capital Improvement Fund
ASSETS				
Cash and cash equivalents.	\$ 65,344	\$ 4,437	\$ 20,859	\$ 15,185
Investments.				409,788
Prepaid expenses				
Due from other funds			945	
Total assets	<u>\$ 65,344</u>	<u>\$ 4,437</u>	<u>\$ 21,804</u>	<u>\$ 424,923</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,701	\$	\$	\$
Due to other funds	14,679	658		
Due to other governments			20,790	
Total liabilities.	<u>\$ 19,379</u>	<u>\$ 658</u>	<u>\$ 20,790</u>	<u>\$</u>
Fund balances:				
Reserved				
Unreserved	45,964	3,778	1,015	424,923
Total fund balances.	<u>\$ 45,964</u>	<u>\$ 3,778</u>	<u>\$ 1,015</u>	<u>\$ 424,923</u>
Total liabilities and fund balances.	<u>\$ 65,344</u>	<u>\$ 4,437</u>	<u>\$ 21,804</u>	<u>\$ 424,923</u>

Community Development Grant Fund	OLSA Fund	Total Non-major Special Revenue Funds
\$	\$ 16,378	\$ 122,202
		409,738
	5,000	5,000
		945
<u>\$</u>	<u>\$ 21,378</u>	<u>\$ 537,886</u>
\$	\$	\$ 4,701
	5,558	20,895
		20,790
<u>\$</u>	<u>\$ 5,558</u>	<u>\$ 46,385</u>
	5,000	5,000
	10,820	486,501
<u>\$</u>	<u>\$ 15,820</u>	<u>\$ 491,501</u>
<u>\$</u>	<u>\$ 21,378</u>	<u>\$ 537,886</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	Special Revenue Funds	Capital Project Funds Pelletier Paving	Total Non-Major Governmental Funds
Revenues:			
Taxes	\$ 103,910	\$	\$ 103,910
Licenses and permits.	160,061		160,061
Federal sources	11,100		11,100
Fines and forfeitures	4,145		4,145
Interest.	19,697	1,506	21,203
Other	30,014	23,151	53,165
Total revenues.	\$ 328,926	\$ 24,657	\$ 353,583
Expenditures:			
Public safety	167,926		167,926
Community and economic development.	1,600		1,600
Public works.	27,017	300	27,317
Health and welfare.	8,000		8,000
Culture and recreation.	105,410		105,410
Total expenditures.	\$ 309,954	\$ 300	\$ 310,254
Excess of revenues over expenditures.	\$ 18,973	\$ 24,357	\$ 43,330
Fund balance (deficit) - July 1, 2005	472,528	(21,220)	451,308
Fund balance - June 30, 2006.	\$ 491,501	\$ 3,138	\$ 494,638

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2006

	Building Fund	Drug Forfeiture Fund	Library Fund	Capital Improvement Fund
Revenues:				
Taxes	\$ 160,061	\$	\$ 103,910	\$
Licenses and permits				
Federal sources		4,145		
Fines and forfeitures	2,738	2	151	16,712
Interest				
Other				
Total revenues	\$ 162,798	\$ 4,147	\$ 104,061	\$ 16,712
Expenditures:				
Public safety	162,669			
Community and economic development		369		300
Public works				
Health and welfare			103,910	
Culture and recreation				
Total expenditures	\$ 162,669	\$ 369	\$ 103,910	\$ 300
Excess of revenues over (under) expenditures	\$ 180	\$ 3,778	\$ 151	\$ 16,412
Fund balance - July 1, 2005	45,835	1	864	408,511
Fund balance - June 30, 2006	\$ 45,964	\$ 3,778	\$ 1,015	\$ 424,923

JANZ & KNIGHT, P.L.C. • CERTIFIED PUBLIC ACCOUNTANTS

Community Development Grant Fund	OLSA Fund	Total Non-major Special Revenue Funds
\$	\$	\$ 103,910
11,100		160,061
		11,100
	94	4,145
	30,014	19,697
		30,014
\$ 11,100	\$ 30,108	\$ 328,926
	5,258	167,926
1,600		1,600
	26,348	27,017
8,000		8,000
1,500		105,410
\$ 11,100	\$ 31,606	\$ 309,954
\$	\$ (1,498)	\$ 18,973
	17,318	472,528
\$	\$ 15,820	\$ 491,501

JANZ & KNIGHT, P.L.C.

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MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

August 16, 2006

The City Council
City of Orchard Lake Village, Michigan

Dear Members of the City Council:

In planning and performing our audit of the general purpose financial statements of the City of Orchard Lake Village, Michigan for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the Internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City of Orchard Lake Village, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Reportable Conditions:

During our audit it came to our attention that in several instances Oakland County owed the City money for water/sewer new connection fees and special assessment payoffs for an extended period of time. The City needs to implement controls to better supervise the County in administering these funds to the City. The City needs to review the quarterly collections submitted by the County and verify that collections for all parcels that have a balance continue. The City should contact the County when they notice that quarterly collections on a parcel have not been submitted and inquire if there is a payoff owed to the City.

Public Act 20 of 1943 authorizes local governments to invest in specific lawful investment instruments; Public Act 196 of 1997 requires local governments to adopt an investment policy. The City had investments in a money market mutual fund that had investments in unauthorized instruments according to statutory authority. The City does have an investment policy that complies with statutory requirements, but the City was not in compliance with their Diversification policy. The policy states that no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury securities and authorized investment pools. The City had 100% of its investments in one investment type and at one financial institution.

Other Comments and Recommendations:

Due to the implementation of GASB 40 - Deposit and Investment Risk Disclosure, we recommend that the City's investment policy be updated. GASB 40 addresses issues such as credit risk, concentration risk, and interest rate risk.

We would like to thank the Council for the opportunity to serve as auditors for the City, and to express our appreciation for the courtesy and cooperation extended to our staff during the course of our audit.

This report is intended solely for the information and use of the City Council, management, and others within the administration. However, this report is a matter of public record, and its distribution is not limited. We would be pleased to discuss the above items with the Council and to assist in the implementation of the recommendations.

Very truly yours,



Certified Public Accountants